

Message Text

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ACTION ARA-20

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C O N F I D E N T I A L PORT AU PRINCE 1493

E.O. 11652: GDS

TAGS: EFIN, EAID, HA

SUBJECT: EXPECTED HAITIAN BALANCE OF PAYMENTS PROBLEMS

1. THE HAITIAN FOREIGN EXCHANGE POSITION IS EXPECTED TO DETERIORATE MUCH MORE SHARPLY THIS YEAR THAN EARLIER STUDIES HAD INDICATED. A CONFIDENTIAL STUDY PREPARED JULY 30 BY THE HAITIAN SECRETARY OF COMMERCE AND INDUSTRY ESTIMATES THAT THE SITUATION WILL BE EXTREMELY SERIOUS, WITH BNRH FOREIGN EXCHANGE RESERVES DECLINING BY \$24.2 MILLION BETWEEN FEBRUARY 1974 AND FEBRUARY 1975, WHICH WOULD LEAVE HAITI IN A DEFICIT POSITION. IN MAY THE SECRETARY HAD FORECAST A DECREASE OF ONLY \$4.85 MILLION. THE IMF RESIDENT REPRESENTATIVE CONSIDERS THE MINISTER'S FORECAST TOO PESSIMISTIC, BUT HE TOO FORESEES A SERIOUS SITUATION, ESTIMATING A DECLINE OF SLIGHTLY OVER \$14 MILLION IN HAITIAN RESERVES. SO EVEN UNDER THE BEST OF CIRCUMSTANCES, HAITIAN RESERVES ARE EXPECTED TO DROP FROM THE \$19 MILLION LEVEL ATTAINED IN FEBRUARY 1974 TO A LEVEL OF \$5 MILLION IN FEBRUARY 1975.

2. BOTH OF THE REVISED STUDIES POINT TO THE FOLLOWING AS IMPORTANT FACTORS IN THEIR PREDICTIONS THAT RESERVES WILL DETERIORATE MUCH MORE SHARPLY THAN HAD BEEN FORESEEN IN MAY OF THIS YEAR:

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A. THE DISCOVERY THAT THERE WILL BE NO SURPLUS OF CEMENT AVAILABLE FOR EXPORT UNTIL EARLY 1975 AND THAT HAITI WILL, IN FACT, HAVE TO IMPORT CEMENT IN ORDER TO SUPPLY DOMESTIC DEMAND.

B. THE RECEIPT OF NEW INFORMATION ON THE AMOUNT OF FOREIGN EXCHANGE WHICH WILL HAVE TO BE PAID OUT BEFORE FEBRUARY 1975 ON VARIOUS ACCOUNTS AND LETTERS OF CREDIT TO WHICH THE GOVERNMENT OF HAITI IS ALREADY COMMITTED.

C. AN INCREASE IN GOVERNMENT INVESTMENT IN TELECOMMUNICATIONS WHICH WILL REQUIRE FOREIGN EXCHANGE PAYMENTS TOTALING \$5.6 MILLION BY FEBRUARY 1975. EARLIER STUDIES ESTMIATED THAT ONLY \$2 MILLION WOULD BE EXPENDED ON TELECOMMUNICATIONS.

D. INCREASED WHEAT PURCHASES WHICH MUST BE PAID FOR IN CASH SINCE THE CANADIAN LINE OF CREDIT IS INSUFFICIENT FOR COUNTRY'S NEEDS.

3. HIGHER PRICES FOR PETROLEUM (ESTIMATED AT \$13 MILLION), PLUS THE INCREASE IN COSTS FOR WHEAT AND SOYBEANS, ARE OF COURSE THE ROOT OF THE HAITIAN B/P DIFFICULTIES. HOWEVER, THERE IS NO DOUBT THAT THE PROBLEM HAS BEEN COMPOUNDED BY THE GOVERNMENT'S COMMITMENTS TO PURCHASE HELICOPTERS, MILITARY EQUIPMENT, AND TELECOMMUNICATIONS EQUIPMENT. SOME OF THESE COMMITMENTS WERE ENTERED INTO BEFORE IT WAS REALIZED THAT THE CRISIS WOULD BE SO SEVERE. IN OTHER CASES, IT APPEARS THAT THE PRESIDENT DECIDED ON CERTAIN PURCHASES WHICH HE FELT WERE ESSENTIAL TO MAINTAIN POLITICAL STABILITY, TO SUPPORT HIS REGIME, AND/OR TO SATISFY HAITIAN NATIONAL PRIDE AND SENSE OF DIGNITY. THE DECISION TO USE NATIONAL FUNDS FOR TELECOMMUNICATIONS INVESTMENT MAY BE BASED IN PART ON DISSATISFACTION WITH THE COMPLICATED PROCEDURES, THE STRICT REQUIRMENTS, AND THE LONG NEGOTIATIONS NECESSARY BEFORE A LOAN IS GRANTED BY ANY OF THE INTERNATIONAL LENDING AGENCIES.

4. HAITIAN ECONOMIC OFFICIALS ARE MAKING EFFORTS TO PERSUADE THE PRESIDENT OF THE SERIOUSNESS OF THE SITUATION AND OF THE NEED FOR THE GOVERNMENT TO OBSERVE THE STRICTEST SELF DISCIPLINE IN FUTURE MONTHS, LIMITING PURCHASES TO ITEMS ESSENTIAL FOR DEVELOPMENT AND MAKING GRETER USE OF REGIE FUNDS FOR DEVELOPMENT AND PERHAPS EVEN ORDINARY EXPENDITURES. IT WILL BE POINTED OUT TO HIM THAT SUCH ACTION IS NOT ONLY IMPORTANT IN ITSELF BUT WILL ALSO MAKE IT EASIER FOR THE GOH TO OBTAIN THE ADDITIONAL B/P ASSISTANCE WHICH WILL BE CONFIDENTIAL

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ESSENTIAL DURING THE NEXT TWO YEARS. IN THE MEANTIME, THE NATIONAL BANK IS EXPECTED TO ANNOUNCE SHORTLY AN INCREASE IN THE PRIME INTEREST

RATE (FROM 8 TO 11 PERCENT) AND THE PRESIDENT OF THE BANK IS NOW IN NEW YORK TRYING TO ARRANGE LINES OF CREDIT FOR THE EARLY FALL. THE SECRETARY OF COMMERCE IS ALSO RECOMMENDING THAT QUOTAS BE ESTABLISHED ON THE IMPORT OF ABOUT A DOZEN COMMODITIES.

5. FOREIGN ASSISTANCE OF VARIOUS SORTS WILL, NONETHELESS, BE ESSENTIAL. GOH CAN OF COURSE COUNT ON SOME ASSISTANCE FROM IMF. (IN ADDITION TO STANDBY OF US \$4 MILLION JUST ANNOUNCED, IT NOW APPEARS LIKELY THAT HAITI WILL BE ELIGIBLE FOR AN ADDITIONAL \$4 MILLION FROM THE SPECIAL OIL FACILITIES.) HOWEVER, THIS WILL BARELY KEEP HAITI AFLOAT UNTIL FEBRUARY. THE ONLY OTHER SOURCE OF SIGNIFICANT NEW ASSISTANCE ONE CAN SEE WOULD BE EARLY U.S. APPROVAL OF A PL-480 TITLE I PROGRAM WHICH IS THE SUBJECT OF CURRENT DISCUSSIONS IN WASHINGTON. (ALTHOUGH GOH HAS REQUESTED THE EUROPEAN COMMUNITY AND SEVERAL OIL EXPORTING COUNTRIES FOR ASSISTANCE, IT SEEMS UNLIKELY THAT ANY HELP WILL BE FORTHCOMING FROM THESE SOURCES.)
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